

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6329**

**BILL NUMBER: SB 46**

**DATE PREPARED:** Nov 13, 2001

**BILL AMENDED:**

**SUBJECT:** College Contribution Tax Credit.

**FISCAL ANALYST:** Jim Landers

**PHONE NUMBER:** 232-9869

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill increases the maximum income tax credit for contributions by individuals to Indiana colleges from \$100 to \$250 for single returns and from \$200 to \$500 for joint returns. The bill also increases the maximum income tax credit for contributions by corporations to Indiana colleges from \$1,000 to \$2,500.

**Effective Date:** January 1, 2002 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses presumably can be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill could potentially reduce Individual and Corporate Income Tax revenue by about \$7.6 M to \$8.5 M beginning in FY 2003. The lower estimate assumes that the number of individual and corporate taxpayers who currently make sufficient contributions to claim the maximum credit level will in the future make sufficient contributions to claim the proposed maximum credit levels. The higher estimate assumes that recent annual change in the number of filers claiming the maximum credit level will continue through tax year 2002.

*Background:* Under current law, individuals may claim credit that is limited to 50% of charitable contributions to Indiana higher education institutions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Current law also permits a corporation to claim a credit for such contributions equal to 10% of its total Corporate Adjusted Gross Income (AGI) Tax liability up to \$1,000. The bill increases the maximum credit amounts to \$250 for single filers, \$500 for joint filers, and \$2,500 for corporate filers. As a result, the bill would reduce tax liabilities for individuals and corporations who make charitable contributions to Indiana's higher education institutions in excess of the current credit limits.

According to individual tax return data for tax year 1999, 83,774 taxpayers claimed approximately \$8.1 M in credits for contributions to Indiana higher education institutions. Of this total, 8,486 single return filers and 246 separate return filers claimed the maximum \$100 credit, and 20,408 joint filers claimed the \$200 maximum credit. According to corporate tax return data for tax year 1999, 379 corporate filers claimed approximately \$157,000 in credits for higher education contributions. Ninety-five corporate filers claimed the maximum credit of \$1,000.

It is assumed that taxpayers currently taking less than the maximum credit would not increase their higher education contributions solely due to an increase in the credit limit. Therefore, the estimates assume that only taxpayers taking the maximum credit in the past would claim the maximum credit under the limits set by the bill beginning in 2002. On this basis, the increase in the credit limit would reduce income tax revenue by approximately \$7.6 M beginning in FY 2003. However, the tax return data indicates that the number of individual taxpayers claiming the maximum credit rose by almost 4.28% from 1998 to 1999. Based on filer status, the increases are 4.61% for single return filers, 1.65% for separate return filers, and 4.18% for joint return filers. At the same time, the number of corporate filers claiming the maximum credit since declined by an annual average of 11.02% from 1997 to 1999. Taking these rates of change into account for the number of individual and corporate taxpayers taking the maximum credit in 2002, the estimated revenue loss due to the bill totals approximately \$8.5 M beginning in FY 2003.

*Impact on Higher Education Institutions:* This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Institutions of higher education in Indiana.

**Local Agencies Affected:**

**Information Sources:** OFMA Individual and Corporate Income Tax databases, 1997, 1998, & 1999.